

UNDERSTANDING CREDIT RATINGS

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Moody's Investors Service

Credit Basics

- What is a Rating & What it is Not
- Fundamental Rating Criteria
- Moody's Rating Scale
- The Rating Process



Bond Rating Basics

What is a municipal bond rating?

- A relative measure of risk to bondholders
- Measure of financial strength which takes into account all of the resources of an issuer and the legal structure of the financing.



Bond Rating Basics

- Bonds issued by cities, counties, school and special districts are broadly defined as “municipal” bonds
- A Moody’s Public Finance rating is *not* equivalent to a Moody’s Corporate Bond rating.



Moody's Public Finance Ratings

Ratings:	Long -Term	Quality
Investment Grade	Aaa	Strongest Creditworthiness
	Aa1/Aa2/Aa3	Strong Creditworthiness
	A1/A2/A3	Above-average Creditworthiness
	Baa1/Baa2/Baa3	Average Creditworthiness
Below Investment Grade	Ba1/Ba2/Ba3 B1/B2/B3	Below Average Creditworthiness
	Caa1/Caa2/Caa3	Very Weak Creditworthiness



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Key Credit Factors

- Economy
- Finances
- Debt
- Management



Economic Factors

- **Strength and Diversity of Tax Base**
 - Local Economy
 - AV and other Growth Trends
 - Largest Taxpayers
- **Socio-economic Indicators**
 - Per capita income
 - Median family income
 - Full value per capita
 - Unemployment trends



Financial Performance

- **Financial Flexibility**
 - Diversity of revenues
 - Mandatory vs. optional expenditures
- **General Fund Balances**



Debt

- Debt Levels
- Debt Structure
- Future Capital/Borrowing Needs



Management

- Evaluated in context of the other major factors
- Ability to maintain structurally balanced financial operations
- Ability to Recognize and Respond to Problems and Constraints



Lease and Revenue Bond Rating Factors

Lease Financing considerations:

- Assets being financed
- Terms and conditions of Lease Agreement

Revenue Bond considerations:

- Legal structure and covenants
- Strength and reliability of revenue stream



The Rating Process

